Asia's tech giants invest billions in dying retail

Ask any Hong Kong based fund manager which stock they wish they'd doubled up on and they'll almost certainly say Alibaba or Tencent. Both now rival Facebook in terms of share price growth and market capitalisation.

Alibaba, Asia's answer to Amazon, began as a China focused e-commerce marketplace, where Chinese manufacturers can sell to customers around the globe. Now Asia's largest online marketplace, Alibaba has evolved into a fully-fledged tech company offering internet payment services, online media and cloud computing services.

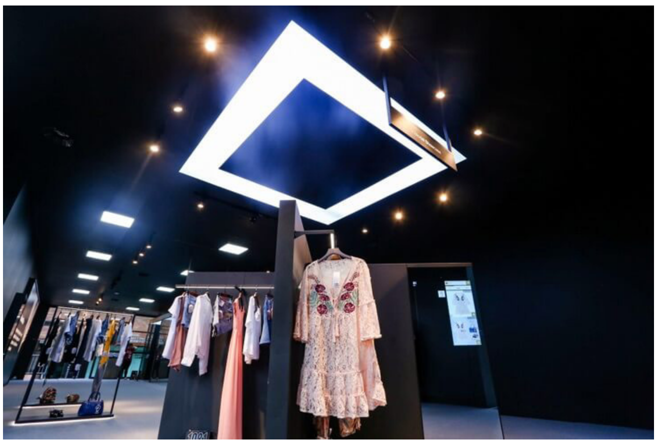
Tencent, often called the "Facebook of China", is best known for its hugely successful WeChat app. It integrates online messaging with mobile payments and just about everything else for over 1 billion Chinese users. Tencent has also expanded into e-commerce, mobile gaming, internet services and other ventures.

So why is an Australian property analyst banging on about Chinese tech stocks? Well, both are now investing heavily in bricks and mortar retail.

Surprised? Given the number of reports of the Death of Retail at the hands of internet retailers like Alibaba and the kind of payment systems embedded in WeChat, you wouldn't be alone if you were.

But instead of hastening the decline of traditional retailing, these massive e-commerce companies are investing in the future of it.

Alibaba recently debuted a Hong Kong-based concept store showing its vision of the future of retail. Dubbed "FashionAI", it brings machine learning and artificial intelligence to fashion shopping.



Alibaba, 2018

Here's the pitch; you enter a store surrounded by 'smart mirrors' that respond to the items you're inspecting. The smart mirror - an LED screen - shows product details and recommends other items that will match it as part of an outfit.

Alibaba's systems store the data, from which it learns the colours, styles and attributes of the clothing you like, allowing more tailored recommendations. Browsed items are added to a customer's 'virtual wardrobe' on the Alibaba app, allowing easy purchase later if you don't purchase in-store.

It's all about integrating the convenience of online shopping with the fun and immediacy of in-store shopping.

At this stage, FashionAI is just a concept but Alibaba is serious about converting it into a workable product. Last year, the company invested US$2.8 bn in China's number one convenience store operator, Sun Art Retail Group, as part of a wider push into retail.

Alibaba's CEO said at the time that, "Physical stores serve an indispensable role during the consumer journey and should be enhanced through data-driven technology and personalised services in the digital economy"[1].

That's speaking our language. And who wouldn't want the CEOs of the world's biggest e-commerce companies, all backing a bright future for conventional retail with billions of dollars, on your side?

Sun Art will allow customers to purchase products via an app and have it delivered to their doorstep within an hour. Alibaba, just like Amazon with its purchase of Whole Foods, is using retail stores as mini-distribution centres for its e-commerce business.

Customers will still be able to purchase goods in-store but the product range will be determined by crunching data to find the most popular goods, rather than relying on the store manager's intuition. This should boost sales, allow better inventory management and offer more convenience to the consumer.

Not wanting to be left behind, Tencent has purchased a stake in Yonghui Superstores, a Chinese department store operator, with similar aspirations to those of Alibaba. Both giants know that 85% of retail sales in China occur offline and they don't want to leave any money on the table.

And nor do we. As an anti-consensus backer of retail landlords through our APN AREIT and Asian REIT managed funds, we're happy to see the global leaders in ecommerce back our view on the future of bricks and mortar retailing. It's far brighter and more exciting than the headlines would have you believe.

1. Reuters UK, "Alibaba goes offline with a £2.2 billion stake in China's top grocer"

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